PanCanadian

ANNUAL REPORT 1974

AR14

DIRECTORS

*ALEX G. BAILEY Calgary, Alberta	—	Director of Conventures Limited
*ROBERT W. CAMPBELL Calgary, Alberta	—	Chairman of the Board and Chief Executive Officer, PanCanadian Petroleum Limited, Director of Canadian Pacific Investments Limited and TransCanada PipeLines Limited
ALBERT D. COHEN Winnipeg, Manitoba	—	President of General Distributors of Canada Ltd.
J. K. FINLAYSON Montreal, Quebec	—	Deputy Chairman and Executive Vice President of The Royal Bank of Canada
HUGH A. MARTIN Vancouver, B.C.	—	President of Western Construction & Engineering Research Ltd.
*H. M. PICKARD Calgary, Alberta	—	Chairman and Chief Executive Officer of Marathon Realty Company Limited
JOHN C. ROSS Lethbridge, Alberta	—	President of Milk River Cattle Company Limited
IAN D. SINCLAIR, Q.C. Montreal, Quebec	—	Chairman and Chief Executive Officer of Canadian Pacific Limited
W. J. STENASON Montreal, Quebec	—	Executive Vice President of Canadian Pacific Investments Limited
*J. M. TAYLOR Calgary, Alberta	—	President of PanCanadian Petroleum Limited, Director of TransCanada PipeLines Limited and Director and Chairman of the Board of Panarctic Oils Ltd.

*Member Executive Committee

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ANNUAL GENERAL MEETING

The Annual General Meeting of Shareholders will be held in the Marquis Room of the Palliser Hotel, Calgary, Alberta at 10:00 a.m., on Thursday, April 10th, 1975. Notice of meeting, information circular and form of proxy are being mailed to each Shareholder with this report.

COVER

Calgary — A modern North American city, but with a genuine flavor of the Canadian West on its doorstep.

PanCanadian is proud to salute Calgary in celebration of its first 100 years.

PHOTOGRAPHS

Cover skyline and interior photographs — Nick Morant.

Two Year Comparative Highlights

FINANCIAL	1974	1973	% Increase
Gross Income	$130,572,078	$75,374,489	73.2
Funds From Operations	74,556,759	49,871,723	49.5
Per Share	2.39	1.60	
Net Income	46,242,695	21,299,970	117.1
Per Share	1.48	.68	
Cash Dividends	19,355,008	12,795,253	51.3
Per Share	.62	.41	
Capital Expenditures	49,315,863	32,014,197	54.0
Long Term Debt	89,945,833	93,467,842	(3.8)
Working Capital	11,748,324	10,900,023	7.8
OPERATIONS			
Production — Net (Daily)			
Oil — bbls.	36,408	40,574	(10.3)
Natural Gas Liquids — bbls.	2,865	2,947	(2.8)
Empress Plant — bbls.	11,979	7,065	69.6
	51,252	50,586	1.3
Natural Gas — MMcf	226.3	210.2	7.7
Sulphur — l.t.	269	263	2.3
DRILLING RECORD			
Exploratory Wells Drilled	112	157	
Successfully Completed	52	100	
Development Wells Drilled	359	184	
Successfully Completed	348	167	
Net Oil Wells	454.1	467.5	
Net Gas Wells	851.5	574.9	
Net Acres	16,426,125	19,705,221	

To the Shareholders

On behalf of the Board of Directors we present the 1974 Annual Report of PanCanadian Petroleum Limited and subsidiaries.

Financial and operating success during the past year must be viewed within the context of continued inflation and increased government regulation and taxation in the oil and gas industry. Recently increased provincial royalties and the disallowance of royalty and other payments to provincial governments as allowable deductions in calculating taxable income have reduced cash flows. These changes coupled with the uncertainties as to future regulations have also eroded the confidence of the investment public in the petroleum industry. The continuation of exploration and development in Canada necessary to maintain essential supplies requires the ability to secure adequate financial resources.

During 1974, gross income, reflecting primarily increased product prices, increased to $130.6 million, compared with a gross income of $75.4 million in 1973. Funds from operations of $74.6 million compared with $49.9 million in 1973, recorded an increase of $24.7 million. Net income, after giving effect to the adoption of full provision for deferred income taxes at current effective rates, increased from $21.3 million in 1973, to $46.2 million in 1974. During the past year capital expenditures on petroleum and natural gas properties, including production facilities and our investment in Panarctic Oils Ltd. amounted to a record $51.1 million compared to $33.7 million in 1973.

During 1974, your Company continued its active exploration program in Western Canada, concentrated in the Southern Plains and Foothills, and in Northern Canada in the Mackenzie Delta area. In Eastern Canada, exploration was carried out both on and offshore. In the United States, exploration activities were concentrated in the Rocky Mountain States and Gulf Coast area. Outside North America, the Company entered into an agreement for exploration in Iran and continued its activities in Indonesia and north western European waters.

A record number of wells were again drilled on Company lands and for the second successive year PanCanadian was the leading operator in terms of drilling completions in Canada.

PanCanadian applied for an Industrial Development Permit for the Brooks Ammonia Plant and the required hearing was held before the Alberta Energy Resources Conservation Board in October, 1974. A decision on this application is anticipated in the near future. The design and engineering of this plant is complete and the required development drilling for gas deliverability will be completed in 1975.

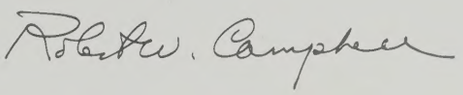
The Company is investigating the economic feasibility for further petrochemical diversification utilizing the Company's coal and natural gas reserves.

PanCanadian has a 50 percent interest in Stillings Petroleum (Canada) Ltd., and Stillings International Company, which have been formed in Canada and the United States to market PanCanadian Gas Products' LPGs produced at Empress, Alberta.

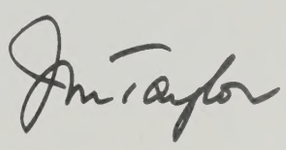
In the span of one short year, the world's energy consuming nations have suddenly realized their heavy dependence on foreign sources of oil supply that have more than quadrupled in cost. Some countries are now in economic difficulty. Canada is fortunate in that it is currently in a position of balance between production and consumption of hydrocarbons. However, as we stated last year and as substantiated by the National Energy Board in a recent report, Canada will be in a deficit hydrocarbon position by the early 1980's unless very substantial new reserves are discovered and developed. This country has been endowed with an abundance of fossil fuels; exploration experience has given us the expertise and the ability to realize this potential. An essential condition to encourage continued development of these resources is the timely implementation of reasonable and stable government policies, taxation and royalties within which industry may generate the needed capital funds to find and develop new energy supplies.

We wish to express our appreciation for the contribution made to the Company by the Honourable Duff Roblin, P.C., C.C., and by Mr. M. C. McKinnon who resigned as Directors during 1974.

Efficient operations can only be maintained by the perseverance and dedication of an able and conscientious staff. We are fortunate in having such employees and thank them for their continuing efforts in the success of PanCanadian.



Robert W. Campbell
Chairman of the Board
and Chief Executive Officer



J. M. Taylor
President

Calgary, Alberta
March 10, 1975.

Exploration and Development

CAPITAL EXPENDITURES

During 1974, net capital expenditures, exclusive of our investment in Panarctic Oils Ltd. and the Ammonia Plant expenditures, amounted to $45.7 million. The $13.7 million increase over 1973 resulted in the largest exploration and development program in PanCanadian's history.

The 1974 program included exploration expenditures of $30.3 million compared with $22.9 million in 1973; development drilling amounted to $9.7 milion, $4.4 million in 1973; and $5.7 million for plant, production and other equipment compared with $4.7 million in 1973.

Total drilling expenditures of $20.6 million were 45% of capital expenditures. Exploratory drilling costs were $10.9 million and development drilling costs were $9.7 million. Expenditures on acquisition and retention of petroleum and natural gas rights were $8.7 million or 19% of capital expenditures. Geological, geophysical and overhead costs accounted for $10.6 million or 23% of PanCanadian's capital program while expenditures of $5.8 million on production facilities and equipment represented 13%.

Initial expenditures of $3.6 million for construction of the Brooks Ammonia Plant and the $1.8 million investment in Panarctic Oils Ltd. are in addition to the program described above. By the end of 1974, our total investment in Panarctic was $10.1 million.

CAPITAL EXPENDITURES

Exploration and Development	1974	1973
Land Acquisition and Retention	$ 8,699,873	$ 4,372,842
Geological, Geophysical and Overhead	10,638,080	8,759,816
Exploratory Drilling	10,946,569	9,801,139
Total Exploratory	30,284,522	22,933,797
Development Drilling	9,674,834	4,385,015
	39,959,356	27,318,812
Production Facilities and Equipment	5,740,100	4,695,385
Ammonia Plant	3,616,407	—
	49,315,863	32,014,197
Acquisition of PanCanadian Gas Products Ltd. —		
Petroleum and Natural Gas Interests	—	11,589,662
Gas Plant and Production Equipment	—	21,139,614
	—	32,729,276
	$49,315,863	$64,743,473

Exploration expenditures shown above do not include investment in Panarctic Oils Ltd. — 1974 $1,764,060, 1973 $1,705,047.

NORTH AMERICA
Areas in which PanCanadian Petroleum holds oil and gas rights as of December 31, 1974.
Areas in which Panarctic Oils holds oil and gas rights as of December 31, 1974.
ARCTIC OCEAN
ELLESMERE ISLAND
BAFFIN BAY
BEAUFORT SEA
MELVILLE ISLAND
BANKS ISLAND
DEVON ISLAND
Yukon River
ALASKA
VICTORIA ISLAND
BAFFIN ISLAND
YUKON
GREAT BEAR LAKE
Mackenzie River
NORTHWEST TERRITORIES
PACIFIC OCEAN
ATLANTIC OCEAN
GREAT SLAVE LAKE
Peace River
LAKE ATHABASCA
HUDSON BAY
BRITISH COLUMBIA
ALBERTA
SASK.
MANITOBA
CANADA
NEWFOUNDLAND
North Saskatchewan River
LAKE WINNIPEG
St. Lawrence River
QUEBEC
WASHINGTON
ONTARIO
NEW BRUNSWICK
P.E.I.
NOVA SCOTIA
Missouri River
MONTANA
LAKE SUPERIOR
OREGON
NORTH DAKOTA
MINNESOTA
MAINE
IDAHO
LAKE HURON
VT.
N. HAMP.
MASS.
WISCONSIN
MICHIGAN
LAKE ONTARIO
CALIFORNIA
WYOMING
SOUTH DAKOTA
LAKE MICHIGAN
LAKE ST. CLAIR
NEW YORK
RHODE ISLAND
CONNECTICUT
NEVADA
IOWA
LAKE ERIE
PA.
NEW JERSEY
NEBRASKA
UTAH
U.S.A.
IND.
OHIO
MD.
COLORADO
ILLINOIS
W. VIRG.
DELAWARE
KANSAS
VIRGINIA
MISSOURI
KENTUCKY
ARIZONA
N. CAROLINA
NEW MEXICO
OKLAHOMA
ARKANSAS
TENNESSEE
S. CAROLINA
MISS.
ALA.
TEXAS
GEORGIA
LOUISIANA
FLORIDA
MEXICO
GULF OF MEXICO

LAND

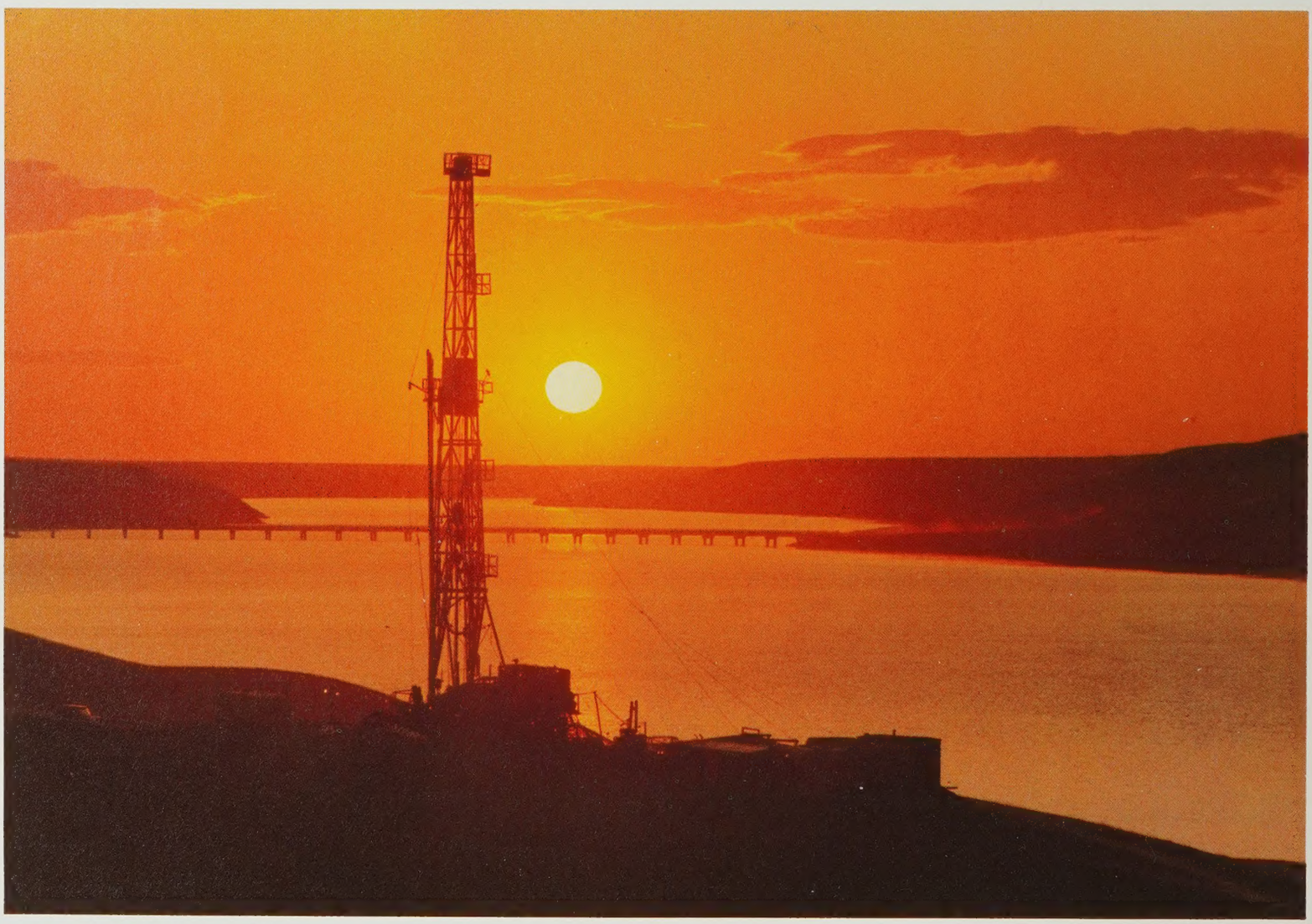
At December 31, 1974 PanCanadian's working interest holdings of petroleum and natural gas rights were 39.7 million gross acres and 16.4 million net acres. This compares with 45.7 million gross acres and 19.7 million net acres in 1973. In addition to these 1974 working interest holdings the Company also held non-working interest acreage under lease or sub-lease, reserving to itself or its subsidiaries royalties or overriding royalties. Not included in reported holdings is the Company's interest in Panarctic Oils Ltd.

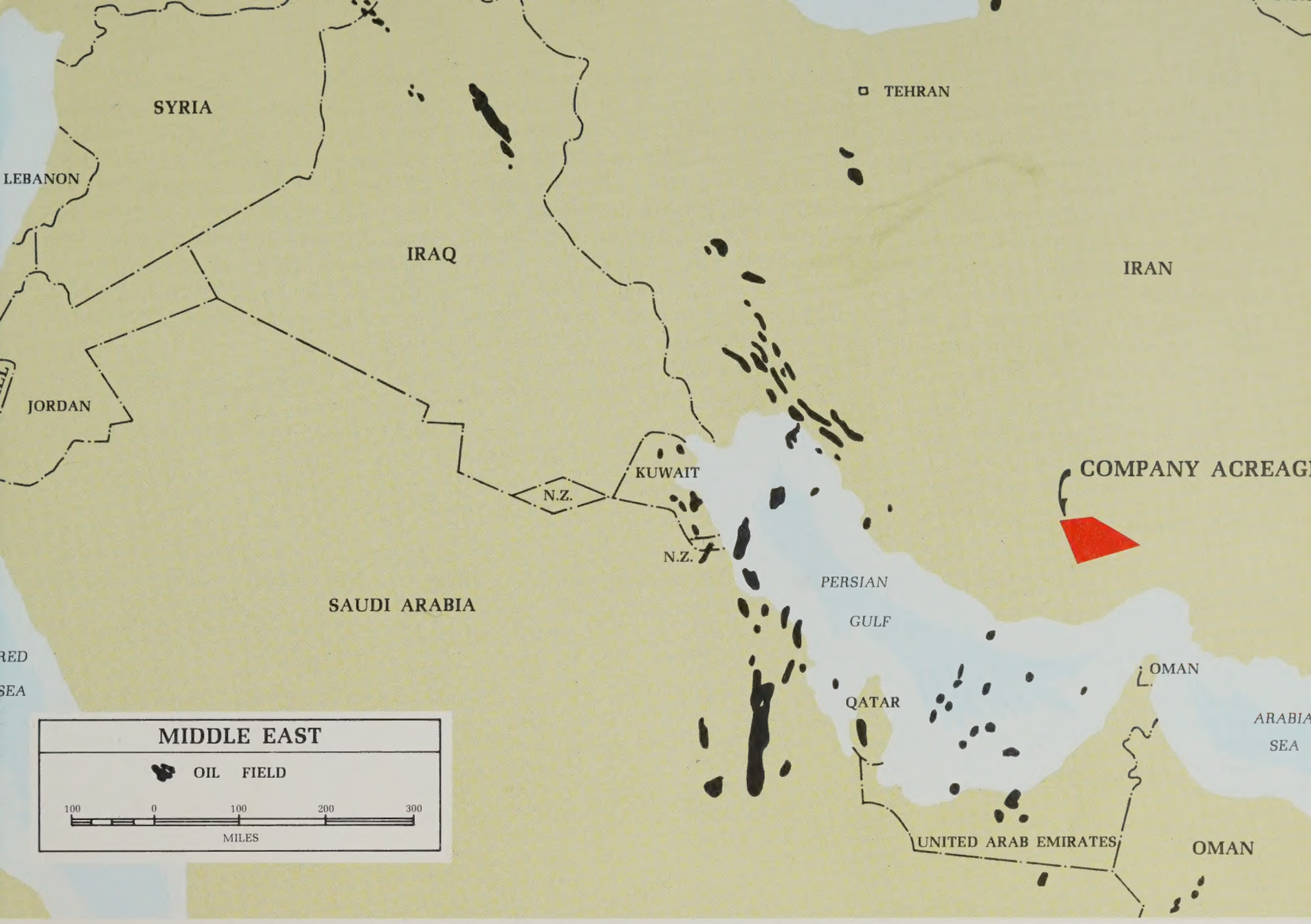
The cost of retaining these holdings and acquiring petroleum and natural gas rights during 1974 involved the expenditure of $8.7 million. Some 13.8 million net acres or 84% of total working interest acreage represented Canadian properties. Alberta accounted for the major portion of net acreage held in Canada, followed by the North West Territories, New Brunswick, East Coast Offshore, Saskatchewan, British Columbia, Manitoba, Quebec and the Arctic Islands. Approximately 4% of total holdings or .7 million net acres were held in the United States; 8% or 1.3 million net acres in Indonesia and the remaining .6 million net acres or 4% in Iran, Tunisia, United Kingdom and Netherlands North Sea and Italy.

EXPLORATION

During 1974, PanCanadian continued its aggressive exploration program in both the mature and frontier areas of Canada. In addition, international exploration was continued in 1974.

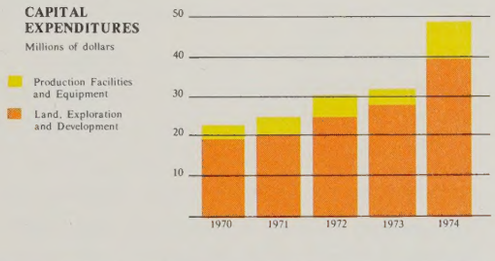
Canadian exploration was carried out in the Southern Plains, Foothills and Deep Basin areas with significant hydrocarbon discoveries in all three regions. Development of the shallow gas reserves in the Medicine Hat region of Southern Alberta continued and 239 successful wells were completed. Geological and geophysical exploration in the Foothills was concentrated in the area west of Calgary and gas was discovered at Morley and Ghost. Oil discoveries were made in Central Alberta at Dickson and Kinsella and gas was discovered at Marten Hills, Smoky Lake and Erith. One Gulf of St. Lawrence and six east coast wells were drilled and abandoned as none contained commercial quantities of hydrocarbons. Geophysical exploration was continued in the Mackenzie Delta and Nova Scotia Shelf regions and also in the mature areas of Western Canada. A preliminary seismic survey was conducted on a portion of approximately 6,000,000 acres held under option in New Brunswick.





In the United States, PanCanadian continued its exploratory and development drilling programs in Texas, Mississippi, Alabama, Wyoming, Colorado, Montana and North Dakota. Several oil producers were drilled in Campbell County, Wyoming and a successful delineation gas and condensate well was drilled in Escambia County, Alabama. On Block A-368 in the High Island area offshore Texas, PanCanadian, in partnership with Hamilton Bros., has drilled four exploratory wildcats. Gas was encountered in the initial well but further drilling indicated the discovery was non-commercial. PanCanadian has also been active in geophysical exploration and has participated in surveys in the Sevier Desert of Utah, Wyoming, the East Coast, the Gulf Coast, California and Alaska. State acreage, totalling 7,400 acres offshore Texas, was acquired in partnership with Texasgulf, and exploration will commence in 1975.

On the international scene, PanCanadian, in partnership with Ashland Oil, signed an agreement to explore and develop 1.8 million acres in the North Lar Block in Iran. Preliminary geological fieldwork has already commenced with geophysical work to start early in 1975 with a view to spudding the first well in August, 1975. PanCanadian's scheduled wells in Block P-13 of the Dutch North Sea and the second well off Kalimantan, Indonesia, were not drilled in 1974 because of a world shortage of suitable offshore drilling rigs. These wells will now be drilled in 1975. The government of Denmark is currently negotiating with groups desiring exploration concessions in Greenland. The concessions will be assigned in the near future and PanCanadian and its group plan to commence geophysical exploration in the spring if concessions are granted.



PANARCTIC OILS LTD.

Panarctic Oils Ltd., the largest and most active explorer of Canada's Arctic, has from inception in 1967 to date expended $126 million. PanCanadian, with an 8.9% interest has participated to the extent of $10.1 million. In early 1975, an additional $25 million was funded by the shareholders of which your Company's share will be $1.8 million. An additional $34 million will be sought from outside sources.

In a six year exploration program, Panarctic has discovered five natural gas fields containing an estimated 12 trillion cubic feet of gas reserves.

During 1974, geophysical work was conducted on many of the islands, and environment and wildlife studies were undertaken during the summer months. The drilling program resulted in a substantial oil flow at the Bent Horn N-72 well on Cameron Island. In addition, Hecla N-52, the first exploratory well ever to be drilled from a floating ice platform, encountered gas bearing sands and Panarctic et al Drake Point D-68, now a capped gas well, set a new depth record for the Canadian Arctic of 17,766 feet.

DRILLING

Wells in which PanCanadian either wholly owns or has a working interest accounted for a gross drilling of 1,329,-521 feet in 1974, an increase of 241,294 feet compared with 1973. On a per well basis, the average depth of wells drilled in 1974 in which the Company participated, was 2,823 feet compared with an average well depth of 3,191 feet in 1973.

For the second consecutive year, PanCanadian participated in more wells than any other operator in

Drilling Record

	Oil		Gas		Dry		Facility		Total		Gross
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Footage
Exploratory											
Alberta	4	2.750	33	17.894	27	14.889	—	—	64	35.533	262,657
— Gas Project	—	—	6	6.000	—	—	—	—	6	6.000	20,383
— Shallow Gas	—	—	4	3.329	—	—	—	—	4	3.329	14,327
British Columbia	—	—	1	.500	1	.600	—	—	2	1.100	8,061
East Coast Offshore	—	—	—	—	6	.692	—	—	6	.692	45,557
Quebec	—	—	—	—	1	.100	—	—	1	.100	4,700
Colorado	—	—	—	—	4	1.000	—	—	4	1.000	21,668
Mississippi	—	—	—	—	1	.125	—	—	1	.125	20,595
Montana	—	—	2	2.000	4	4.000	—	—	6	6.000	16,126
North Dakota	—	—	—	—	1	.350	—	—	1	.350	4,570
Texas	1	.305	—	—	4	.163	—	—	5	.468	52,764
Wyoming	1	.231	—	—	10	2.501	—	—	11	2.732	95,392
Indonesia	—	—	—	—	1	.250	—	—	1	.250	7,817
	6	3.286	46	29.723	60	24.670	—	—	112	57.679	574,617
Development											
Alberta	14	3.346	41	16.365	8	2.502	3	2.055	66	24.268	206,356
— Gas Project	—	—	237	231.931	—	—	—	—	237	231.931	406,373
— Shallow Gas	—	—	49	29.740	—	—	—	—	49	29.740	79,170
Alabama	—	—	1	.044	—	—	—	—	1	.044	15,460
Texas	1	.224	—	—	—	—	—	—	1	.224	6,650
Wyoming	2	.583	—	—	3	.404	—	—	5	.987	40,895
	17	4.153	328	278.080	11	2.906	3	2.055	359	287.194	754,904
Total											
Alberta	18	6.096	74	34.259	35	17.391	3	2.055	130	59.801	469,013
— Gas Project	—	—	243	237.931	—	—	—	—	243	237.931	426,756
— Shallow Gas	—	—	53	33.069	—	—	—	—	53	33.069	93,497
British Columbia	—	—	1	.500	1	.600	—	—	2	1.100	8,061
East Coast Offshore	—	—	—	—	6	.692	—	—	6	.692	45,557
Quebec	—	—	—	—	1	.100	—	—	1	.100	4,700
Alabama	—	—	1	.044	—	—	—	—	1	.044	15,460
Colorado	—	—	—	—	4	1.000	—	—	4	1.000	21,668
Mississippi	—	—	—	—	1	.125	—	—	1	.125	20,595
Montana	—	—	2	2.000	4	4.000	—	—	6	6.000	16,126
North Dakota	—	—	—	—	1	.350	—	—	1	.350	4,570
Texas	2	.529	—	—	4	.163	—	—	6	.692	59,414
Wyoming	3	.814	—	—	13	2.905	—	—	16	3.719	136,287
Indonesia	—	—	—	—	1	.250	—	—	1	.250	7,817
	23	7.439	374	307.803	71	27.576	3	2.055	471	344.873	1,329,521

Canada. Of the total 4,110 wells drilled in Canada during the year, 778 of these wells or 19% of all wells drilled were on Company lands.

An additional 36 wells were drilled on the Company's United States and international properties bringing the total to a record 814 wells drilled on lands in which your Company has an interest. This is an increase of 75 wells or 10% over the number of wells drilled on Company lands in 1973.

Of the total number of wells, the Company retained a working interest in 471 wells and royalty interest in the remaining 343 wells. All of the 343 royalty interest wells plus 6 of the working interest wells were drilled at no cost to the Company.

The Company recorded 649 successful wells out of the 814 wells drilled.

Working interest drilling resulted in 400 successful wells of the total 471 wells drilled. These successful wells consisted of 23 oil, 374 gas wells and 3 facility wells.

The Company's shallow gas exploration and development drilling program in Southeastern Alberta accounted for 296 successful working interest wells in 1974. The Company's share of production from 243 of these wells, together with 92 working interest wells completed in prior years, is dedicated as fuel and feedstock for the Ammonia Plant at Brooks, Alberta.

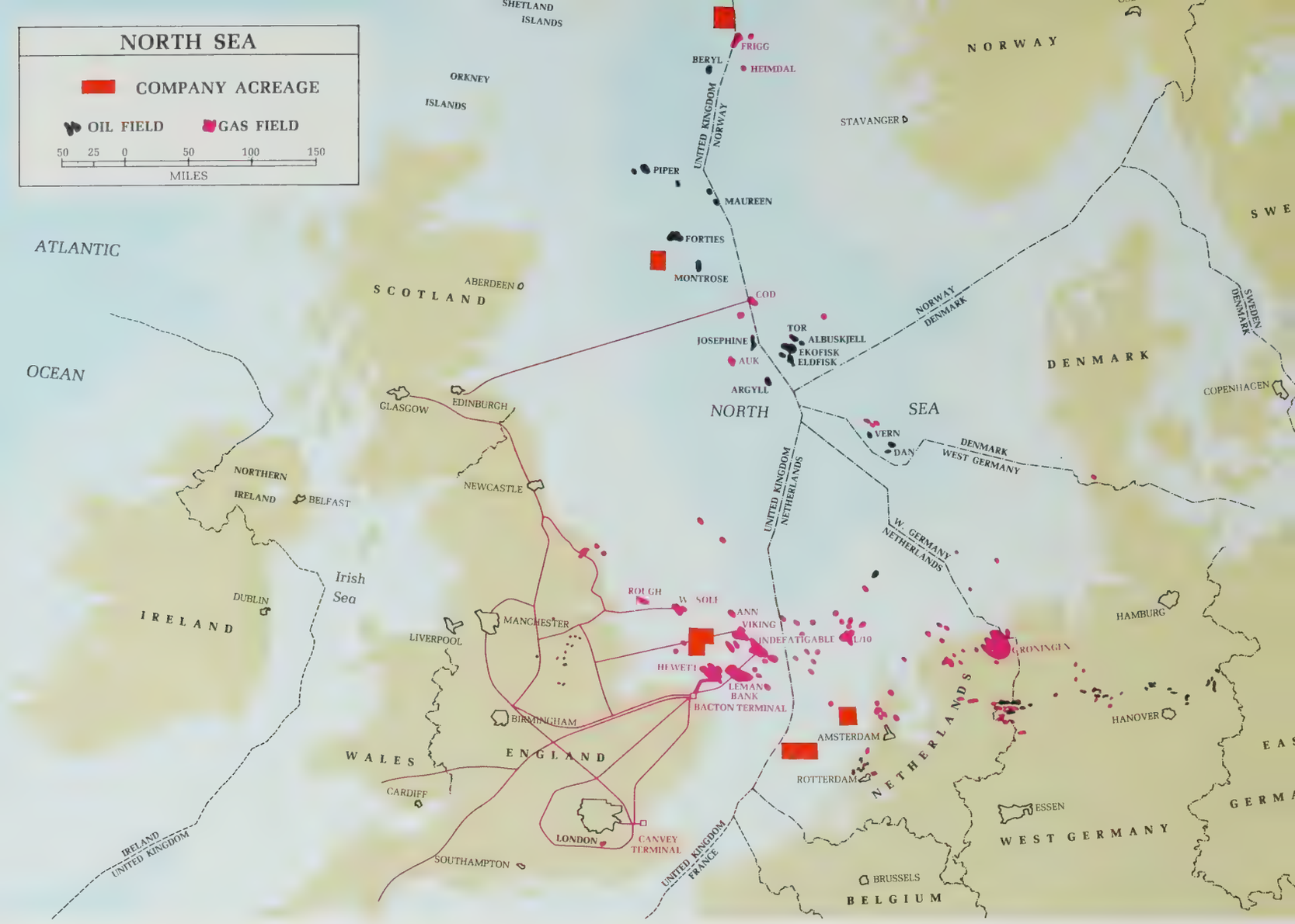
Successful royalty interest wells totalled 249, of which 34 were oil wells, 212 gas wells and 3 facility wells.

EXPLORATORY DRILLING

Exploratory drilling in 1974 accounted for 112 of the 471 working interest wells drilled. Fifty two of these wells were successful, resulting in 6 oil and 46 gas wells.

The majority of these successful wells were drilled in Alberta, 1 well was drilled in British Columbia and 4 wells in the United States.

Company drilling in Alberta was highlighted by a significant gas discovery 20 miles northwest of Calgary. The well, PCP Morley 9-4-26-7W5, was completed as a Mississippian Mount Head gas well which flowed at rates of up to 29.5 million cubic feet of natural gas per day. The Company has 100%



working interest in this well and drilling is in progress to further evaluate this new field.

Other significant working interest wells were drilled in the Marten Hills, Dickson, Josephine and Erith areas of Alberta. The Erith well, located at 7-32-48-18W4, in which the Company has a 25% working interest, tested 5.5 million cubic feet of natural gas per day.

DEVELOPMENT DRILLING

The Company participated in the drilling of 359 development wells during the year and 348 of these were completed successfully, resulting in 17 oil, 328 gas and 3 facility wells.

The Company's shallow gas drilling program in Southeastern Alberta accounted for 286 development gas wells. PanCanadian retains a 100% interest in 237 of these wells, allowing the Company to retain 261.7 net wells of the total 286 gross wells drilled.

Drilling in other areas of Alberta accounted for 41 (16.4 net) additional gas wells and 14 (3.3 net) oil wells. The majority of the gas wells were completed in the Verger, Wintering Hills, Killam and Alderson areas. Drilling extensions and additions to unitized lands in the Snipe Lake, North Twining and Pembina areas accounted for most of the oil well completions.

Four development wells were also completed successfully in the United States; two oil wells in Wyoming, one oil well in Texas and one gas well in Alabama. The Alabama well flowed on test at a rate of 11.5 million cubic feet of natural gas per day and 1,074 barrels of condensate daily. This well, in which the Company has a 4.4 percent working interest, has estimated recoverable reserves of 6.5 billion cubic feet of natural gas.

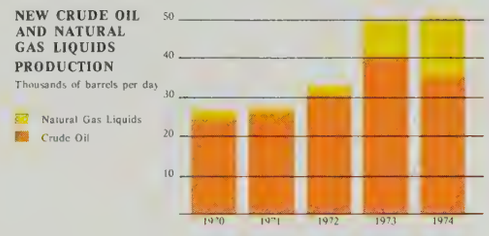
Production

CRUDE OIL

PanCanadian's 1974 net crude oil production showed the first year to year decrease in the Company's history. This decrease, amounting to 4,166 barrels per day or 10 percent, was particularly pronounced during the last four months of 1974 and resulted in a net daily average production for the year of 36,408 barrels. This compares with 1973 net production of 40,574 barrels per day.

The high level of Export Tax levied by the Federal Government on crude oil leaving Canada was the principal cause for this reduction. Cost of Canadian medium and heavy gravity crude delivered to the northern refineries in the United States was too expensive in relation to other available oils. Representations to the National Energy Board resulted in a reduction of the export tax to purchasers on specifically named crude oils. This reduction, however, was not sufficient to encourage United States' refineries to increase their purchases.

A general decline in production will again be experienced in 1975. The National Energy Board has recommended that Canadian oil exports be reduced in 1975 in order to extend Canada's term of self sufficiency. On January 1, 1975 exports were cut by 100,000 barrels per day and it is anticipated that by July 1, this reduction could be further increased to 250,000 barrels per day.



At the end of 1974, due to the Federal Export Tax, exports of Canadian crude to the United States had already been reduced to three quarters of the average 1973 export level.

Combined production from the Wizard Lake, Fenn Big Valley and Westerose fields, which were affected by the loss of exports, was down 1,112 barrels per day or 15 percent from last year's rates. Production from Company operated properties in the Countess, Lathom, Bantry and Horsefly fields in Alberta and Weyburn field in Saskatchewan was affected by the loss in market-

ability. This situation resulted in a production loss to PanCanadian of 5,700 barrels a day during September. However, due to successful secondary recovery operations, production at Wizard Lake, Fenn Big Valley, Westerose, Bonnie Glen, Countess and Lathom, although down from 1973, was still up 62 percent from 1972 levels.

During 1974, 36,209 barrels per day or 99% of total net crude oil production was from Canada. The remaining 1% or 199 barrels per day was from the United States. Canadian production was again led by Alberta with 30,021 barrels per day or 82% of the total. Saskatchewan accounted for 6,113 barrels per day or 17%.

NET CRUDE OIL PRODUCTION

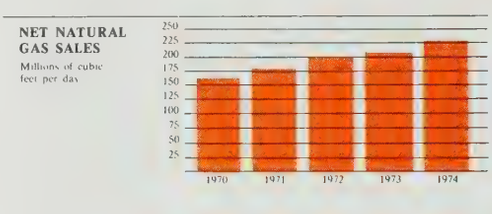
Barrels Daily	1974	1973
ALBERTA		
Countess	9,554	9,959
Wizard Lake	3,376	4,094
Lathom	1,934	1,760
Bonnie Glen	1,581	1,266
Fenn Big Valley	1,569	1,791
Westerose	1,374	1,546
Taber	1,247	1,691
Bantry	895	1,054
Pembina	710	685
Hussar	668	719
Horsefly	656	860
Gilby	602	663
Redwater	575	531
Bellshill Lake	458	466
Provost	399	307
Leduc	383	457
Parflesh	376	438
Black	341	390
Joarcam	299	292
Alderson	282	270
Medicine River	276	288
Chauvin	196	272
Meekwap	196	388
Wintering Hills	193	284
Other	1,881	2,540
	30,021	33,011
SASKATCHEWAN		
Weyburn	3,998	5,005
Flat Lake	688	570
Handsworth	307	363
Lake Alma	254	303
Other	866	1,164
	6,113	7,405
MANITOBA	75	82
UNITED STATES	199	76
	36,408	40,574

NATURAL GAS

PanCanadian continues to rank as one of the leading natural gas producers in Canada. The Company experienced another record year with natural gas sales of almost 83 billion cubic feet. Production during the year increased by 8% to 226.3 million cubic feet daily from the previous year's average of 210.2 million cubic feet per day.

The Alderson area replaced Countess as the Company's leading gas producing area during the year. Production from infill drilling on unitized lands and new well production on non-unit lands in the area boosted production to 26.4 million cubic feet daily, 68% greater than last year's rate of 15.7 million cubic feet per day. These improvements were initiated because of the increasing price of natural gas.

PanCanadian renegotiated 90% of its gas sales contracts during the year. Sales of over 55.6 million cubic feet per day were affected by price increases to 60c per thousand cubic feet. Sales of approximately 79 million cubic feet daily were affected by price increases to 27c from 18c per thousand cubic feet of natural gas. In the future all contracts will be renegotiable every year with the price being set at the going rate. Contracts with Canadian Western Natural Gas were also renegotiated to prices equivalent to 44.5c per thousand cubic feet. Most of the remaining gas sales contracts which apply to the balance of the Company's natural gas production were also subject to various price increases during the year.



NET NATURAL GAS PRODUCTION

Millions of Cubic Feet Daily	1974	1973
ALBERTA		
Alderson	26.4	15.7
Jumping Pound	21.9	20.6
Countess	20.5	22.0
Calgary	16.2	18.3
Hussar	11.5	14.4
Westerose	11.0	11.0
Redland	10.1	10.5
Wayne	8.4	7.5
Wintering Hills	7.1	7.5
Ferrybank	6.9	6.0
Bantry	5.1	3.6
Gilby	4.9	5.0
Ukalta	4.6	4.3
Rosebud	4.2	3.7
South Carbon	4.0	2.8
Atlee Buffalo	3.9	4.5
Viking-Kinsella	3.8	2.1
Lathom	3.1	2.5
Nevis	2.7	3.2
Homeglen Rimbey	2.7	2.5
Bassano	2.4	1.5
Other	40.3	36.3
	221.7	205.5
UNITED STATES	4.6	4.7
	226.3	210.2

NATURAL GAS LIQUIDS

A substantial increase in sales of gas liquids from the Empress Plant more than offset a decrease in net crude oil production during 1974. Total crude oil and natural gas liquids production amounted to 51,252 barrels per day in 1974 versus 50,586 barrels per day in 1973. Gas liquids accounted for 14,844 barrels per day in 1974 compared with 10,012 barrels per day in 1973.

PanCanadian's wholly owned subsidiary, PanCanadian Gas Products Ltd. experienced an exceptional year. Company share of liquified petroleum gas (LPG) production averaged 8,400 barrels per day from the Empress, Alberta plant in which Gas Products has a 50% interest. Sales averaged 11,979 barrels per day. Included in the 11,979 barrels per day of liquid sales from the plant were 1,287 barrels of condensate, 6,745 barrels of propane, 2,549 barrels of butane and 1,398 barrels of ethane. Prices in 1974 doubled over the 1973 level. Production of natural gas liquids from plants other than Empress decreased to 2,865 barrels per day in 1974 from 2,947 barrels per day in 1973.

The year was also noteworthy for the increased governmental control over the marketing of LPGs. In late 1973 the National Energy Board placed restrictions on the export of propane and butane. Gas Products, however, is the holder of a long term propane export licence so its exports of propane have not been restricted to the same extent as other producing companies. At the provincial level the Public Utilities Board of Alberta has placed allocations on producers for the supply of propane to the Alberta consumer and have set the Alberta price substantially below the North American market price. This price will be the subject of a hearing set for early 1975.

During 1974, work started on a $23,000,000 expansion of facilities at Sarnia in which Gas Products has an interest. The additional facilities are required in order to fractionate and store additional product produced at Empress. Completion of the additional facilities is scheduled for late 1975.

Plans for 1975 also include the installation of equipment at the Empress Plant to increase ethane recovery and a change in marketing arrangements. Commencing September 1, 1975 all Gas Products' LPG production will be marketed in Canada and the United States through joint ventures in which the Company has a 50% interest. Stillings Petroleum Corporation of Tulsa, Oklahoma is our partner in this venture.

NET NATURAL GAS LIQUIDS SALES

Barrels Daily	1974	1973
ALBERTA		
Empress Gas Plant	11,979	7,065
Westerose	829	890
Jumping Pound	496	443
Calgary	327	371
Hussar	230	256
Homeglen Rimbey	168	159
Redland	131	115
Other	666	694
	14,826	9,993
UNITED STATES	18	19
	14,844	10,012

SULPHUR

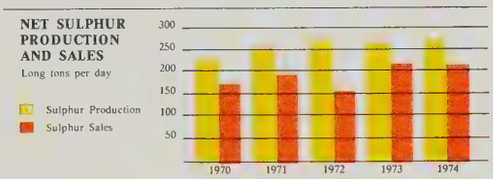
Sulphur sales of 218 long tons per day in 1974 compare with production of 269 long tons per day and represent 81% of production. At December 31, the Company's sulphur inventory stood at 72,016 long tons.

Each of the major sulphur producing areas in which PanCanadian has an interest, maintained production at approximately last year's levels.

Sulphur revenue increased substantially from $0.4 million in 1973 to $1.2 million in 1974. The average selling price to PanCanadian increased from $5.37 per long ton in 1973 to $14.47 per long ton in 1974.

NET SULPHUR PRODUCTION

Long Tons Daily	1974	1973
ALBERTA		
Calgary	126	130
Jumping Pound	68	60
East Crossfield	52	51
Westerose	6	5
Nevis	5	5
Wimborne	5	4
Wildcat Hills	3	5
Homeglen Rimbey	2	2
Other	2	1
	269	263



RESERVES

During 1974, PanCanadian's proven developed and probable reserves of oil and natural gas liquids decreased by an amount approximately equal to the production rate for the year. Total oil and liquids reserves now amount to 194.5 million barrels and at 1974 production rates this represents a reserve life index of 14 years.

Natural gas reserves added during 1974 enabled the Company to increase proven developed and probable reserves to 2.3 trillion cubic feet, more than replacing the gas produced during the year. At 1974 production rates this reserve represents a reserve life index of 28 years.

The reserve life index (which indicates the number of years you can continue to produce at current rates) for oil and liquids and for gas are in excess of the index for the Canadian Petroleum Industry in total.

Proven developed and probable net reserves (after royalties) were determined by Company engineers. "Proven developed reserves" are those reserves which to a high degree of certainty are recoverable at commercial rates under present depletion methods and current operating conditions, prices and costs. "Probable reserves" are those reserves estimated to be commercially recoverable as a result of the beneficial effects of future installation of secondary recovery methods or future improvements in the existing recovery mechanism.

RESERVES
(Proven Developed and Probable)

	1974	1973
Oil and Natural Gas Liquids (bbls.)		
Remaining Reserves at January 1	206,755,149	215,947,448
Reserves Added	2,072,216	6,692,836
	208,827,365	222,640,284
Production	14,334,336	15,885,135
Remaining Reserves at December 31	194,493,029	206,755,149
Natural Gas (MMcf)		
Remaining Reserves at January 1	2,224,901	1,626,962
Reserves Added	155,719	674,666
	2,380,620	2,301,628
Production	82,594	76,727
Remaining Reserves at December 31	2,298,026	2,224,901
Sulphur (l.t.)		
Remaining Reserves at January 1	3,572,962	3,871,280
Reserves Added	601,457	(202,308)
	4,174,419	3,668,972
Production	98,171	96,010
Remaining Reserves at December 31	4,076,248	3,572,962

Employees

PanCanadian increased its staff to 532 during 1974. For the same period salaries and wages increased to $7.2 million.

Beginning in October of 1973 and ending in April of 1974, the employee benefit program was completely revised. These revised benefits are available to all employees of PanCanadian who now enjoy a comprehensive benefit package. Of special note are the improved Pension Plan and new Savings Plan. In an effort to communicate full particulars of benefits to its employees, PanCanadian has developed and issued an individualized Personal Benefit Statement covering actual and projected dollar values of each benefit, and a new Employee Relations Booklet covering in expanded outline form a summary of Company Employee Relations Policies and each benefit. Together, these two publications represent a significant step in employer-employee communications.

Because of the need to keep up with advancing technology, PanCanadian employees have actively participated in Company sponsored Training and Development, and Educational Assistance programs. These programs, which were extended to a great many employees in 1974, represent a continuing effort to improve technical, professional and managerial skills.

In addition, through the Company Scholarship Program for Dependent Children, PanCanadian provided nine new scholarships of $500.00 each to employees' dependents. Additionally, eleven renewals totalling $5,230.00, brought the 1974 Scholarship Program up to $9,730.00 from $8,500.00 in 1974.

In addition to the Scholarship Program, PanCanadian made financial contributions to the Alberta Universities' Building Fund and continued to support a scholarship fund at the Southern Alberta Institute of Technology. Various other academic community donations were made during the year.

Special Projects

BROOKS AMMONIA PLANT

Subsequent to our announcement in January 1974, to construct an anhydrous ammonia plant in the Brooks area of Southern Alberta, PanCanadian placed equipment orders, and moved into the system design and engineering phases of the complex. In May the Alberta Energy Resources Conservation Board issued an interim directive requiring an application under the Oil and Gas Conservation Act for an Industrial Development Permit. In compliance with this directive PanCanadian prepared and submitted the required application, and on September 30 a public hearing was held to deal with our application. Your Company was the first applicant to be heard in compliance with this new regulation. The Board reserved its decision and as of this date no further announcement has been made.

This project, the first of its type for PanCanadian, would use Company natural gas reserves as a raw material and fuel to manufacture 400,000 short tons per year of anhydrous ammonia. A substantial shallow gas development program involving the drilling of more than 400 wells mainly on freehold lands in Southeastern Alberta would deliver the required gas for the plant during the initial 12 year contract period. Studies are also underway to determine the feasibility of converting the plant to use coal, when and if diminishing natural gas supplies and economics dictate.

It is expected that the overall positive impact of this project on the provincial economy will assure the people of Alberta a long term return on the development of these resources and will contribute materially to the industrial base of Alberta.

COAL

PanCanadian, recognizing the growing importance of Western Canada's vast coal reserves has undertaken a program to evaluate the tonnage underlying Company properties.

METHANOL

Pursuant to PanCanadian's objective of obtaining the maximum return for its reserves of natural gas and coal, your Company has joined with two chemical firms to determine the feasibility of manufacturing methanol in Alberta. It is anticipated that the feasibility study will be completed and presented to the respective managements by May, 1975.

Working Interest Holdings in Petroleum and Natural Gas Rights

	At December 31, 1974		At December 31, 1973	
	Gross Acres	Net Acres	Gross Acres	Net Acres
CANADA				
Alberta	8,177,733	6,584,856	8,423,340	6,287,689
Canada — East Coast, Offshore	7,176,153	748,233	15,425,761	1,813,761
New Brunswick (1)	5,937,000	1,187,400	—	—
Northwest Territories and Yukon	4,596,630	3,627,719	4,678,340	3,655,485
Arctic Islands (2)	1,389,394	228,942	1,686,740	235,135
Quebec	1,103,576	252,982	167,750	50,325
British Columbia	671,240	464,325	1,025,782	708,812
Saskatchewan	531,348	505,721	3,118,336	2,427,690
Manitoba	267,123	267,123	262,569	258,316
	29,850,197	13,867,301	34,788,618	15,437,213
Indonesia	5,119,936	1,279,984	5,119,936	2,559,968
United States	1,935,857	684,242	1,395,737	568,321
Iran	1,767,582	353,516	—	—
North Sea (3)	567,923	78,175	564,156	36,349
Tunisia	315,223	118,208	315,223	118,208
Italy	129,757	44,699	2,125,098	814,833
Honduras	—	—	1,362,628	170,329
TOTAL (4)	39,686,475	16,426,125	45,671,396	19,705,221

NOTES:

(1) Option acreage, not yet earned.

(2) Does not include the Company's interest in Panarctic Oils Ltd.

(3) Includes 166,097 gross acres under agreement, not yet earned.

(4) Non-working interest acreage under lease or sub-lease, reserving to PanCanadian or its subsidiaries royalties or overriding royalties — 4,235,892 acres.

Financial

Sustained by product price increases and a substantial improvement in natural gas and Empress Plant liquid sales, PanCanadian recorded its sixth successive year of increased gross income, funds from operations and net income during 1974.

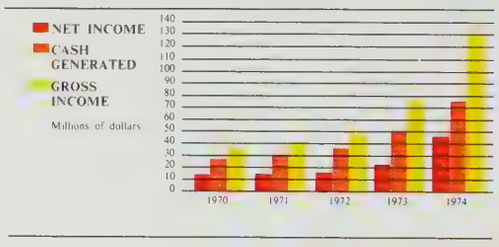
Gross income increased by $55.2 million to $130.6 million in 1974, a 73% improvement over the $75.4 million reported in 1973. Operating revenues of $126.2 million consisted of crude oil $66.2 million, natural gas $20.5 million, natural gas liquids $5.2 million, Empress Plant liquids $29.0 million, sulphur $1.2 million and lease rentals $4.1 million. LPG sales from the Company's 50% interest in the Empress Plant were enhanced by the depletion of inventories as a result of increased market demand. Empress Plant sales accounted for 23% of operating revenues compared with 11% in 1973.

The approximate average prices that PanCanadian received for its products, after deduction of applicable royalties but prior to the deduction of provincial mineral reserve taxes are: crude oil $4.98 per barrel, natural gas liquids $6.31 per barrel, natural gas $0.245 per thousand cubic feet and sulphur $14.47 per long ton.

Funds generated from operations increased 49% or $24.7 million to $74.6 million and $2.39 per share in 1974. During 1973, funds from operations were $49.9 million and $1.60 per share. As a result of this increase, funds provided from Company operations represented 84% of total funds available during the year. Last year 64% of total funds required were provided from Company operations.

Total application of working capital during 1974 amounted to $88.0 million as compared with $97.0 million the previous year. Of this total, capital expenditures on petroleum and natural gas properties accounted for $40.0 million, plant, production and other equipment including initial expenditures on the Ammonia Plant were $9.3 million, investment in Panarctic Oils Ltd. $1.8 million, reduction of long term debt $17.5 million, and dividends declared $19.4 million or $0.62 per share.

Total expenses, exclusive of the provision for income taxes, increased by 34% or $14.4 million to $57.0 million in 1974. Operating expenses, which accounted for $9.0 million of the increase, reflect the increased Alberta mineral reserve tax assessment. Interest expense contributed $2.0 million to the increased expenses and depreciation, amortization and depletion charges $1.6 million. The remaining $1.8 million is accounted for by increased administrative costs. During 1974, operating expenses amounted to 17% of operating revenues, the same percentage as in 1973.



Net income, after provision for both current income taxes and deferred income taxes at current rates, was $46.2 million or $1.48 per share. This compares to net income of $21.3 million or $0.68 per share reported in 1973. During 1974, net income represented 94% of capital expenditures compared to 67% in 1973.

As at December 31, total capitalization amounted to $314.1 million, an increase of $31.6 million over 1973. Long term debt outstanding accounted for $89.9 million or 29% of total capitalization as compared to 33% in 1973. Deferred credits and shareholders' equity accounted for 71% or $224.1 million of total capitalization in 1974 as compared to 67% in 1973.

Working capital at year end 1974 was $11.7 million.

OPERATING REVENUES

	1974	%	1973	%	% Increase From 1973
Crude Oil	$66,199,457	52.5	$45,569,408	62.3	45.3
Natural Gas Liquids	5,233,644	4.1	2,699,656	3.7	93.9
Empress Plant	28,978,261	23.0	7,949,942	10.8	264.5
Natural Gas	20,488,578	16.2	12,566,857	17.2	63.0
Sulphur	1,151,403	0.9	429,273	0.6	168.2
	122,051,343	96.7	69,215,136	94.6	76.3
Lease Rentals	4,110,390	3.3	3,960,915	5.4	3.8
	$126,161,733	100.0	$73,176,051	100.0	72.4

Auditors' Report

To the Shareholders of
PanCanadian Petroleum Limited:

We have examined the consolidated balance sheet of PanCanadian Petroleum Limited and its subsidiaries as at December 31, 1974 and the consolidated statements of income and retained income and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the change in accounting for income taxes described in Note 2 to the financial statements.

Calgary, Alberta
February 14, 1975.

PRICE WATERHOUSE & CO.
Chartered Accountants

PanCanadian Petroleum Limited
and subsidiaries

Consolidated Statement of Income and Retained Income

FOR THE YEAR ENDED DECEMBER 31, 1974

	1974	1973 (Restated)
Income:		
Operating revenue	$126,161,733	$73,176,051
Interest income from affiliated company	3,623,374	1,322,448
Miscellaneous	786,971	875,990
	130,572,078	75,374,489
Expenses:		
Operating	21,635,831	12,647,651
Administrative	4,567,506	2,786,917
Interest on long-term debt	10,415,615	8,388,821
Depreciation and amortization (Note 1)	5,080,360	4,913,923
Depletion (Note 1)	15,282,616	13,878,306
	56,981,928	42,615,618
Income before income taxes	73,590,150	32,758,871
Provision for income taxes (Note 2):		
Current	19,397,434	1,613,113
Deferred	7,950,021	9,845,788
	27,347,455	11,458,901
Net income for the year	46,242,695	21,299,970
Retained income at beginning of year as restated (Note 2)	34,613,135	26,108,418
	80,855,830	47,408,388
Dividends — 62c per share (1973 — 41c)	19,355,008	12,795,253
Retained income at end of year	$ 61,500,822	$34,613,135
Earnings per share	$1.48	$ .68

PanCanadian Petroleum Limited
and subsidiaries

Consolidated Statement of Changes in Financial Position

FOR THE YEAR ENDED DECEMBER 31, 1974

	1974	1973 (Restated)
Source of working capital:		
Net income for the year	$46,242,695	$21,299,970
Expenses not requiring a current outlay of funds —		
Depreciation and amortization	5,080,360	4,913,923
Depletion	15,282,616	13,878,306
Deferred income taxes	7,950,021	9,845,788
Amortization of debenture discount and issue expenses	61,088	62,277
Other	(60,021)	(128,541)
Funds from operations	74,556,759	49,871,723
Decrease (increase) in performance deposits	(8,135)	96,532
Long-term bank loans	14,000,000	27,145,341
Issue of shares	56,983	131,593
Deferred income tax credit	—	435,565
Increase in deferred rentals	199,634	25,704
Decrease in other investments	—	296,710
	88,805,241	78,003,168
Application of working capital:		
Petroleum, natural gas and mineral properties	39,959,356	38,908,474
Plant, production and other equipment	9,356,507	25,834,999
	49,315,863	64,743,473
Investment in Panarctic Oils Ltd.	1,764,060	1,705,047
Debenture discount and issue expenses	—	33,529
Gas processing contracts	—	12,064,790
Reduction of long-term debt	17,522,009	5,656,666
Dividends	19,355,008	12,795,253
	87,956,940	96,998,758
Increase (decrease) in working capital	848,301	(18,995,590)
Working capital at beginning of year	10,900,023	29,895,613
Working capital at end of year	$11,748,324	$10,900,023

PanCanadian Petroleum Limited
and subsidiaries

Consolidated Balance Sheet — December 31, 1974

ASSETS

	1974	1973
Current assets:		
Cash	$ 371,584	$ 286,566
Term deposits with affiliated company	56,781,574	14,448,050
Accounts receivable	19,824,355	11,682,340
Inventories, at average cost —		
Products	1,748,512	2,536,865
Materials	1,440,159	373,352
	80,166,184	29,327,173
Property, plant and equipment, at cost (Note 1):		
Petroleum, natural gas and mineral properties	320,443,798	280,593,859
Less: Accumulated depletion	(88,847,652)	(73,674,453)
Plant, production and other equipment	78,152,757	69,038,630
Less: Accumulated depreciation	(31,122,861)	(26,602,376)
	278,626,042	249,355,660
Investments, at cost:		
Panarctic Oils Ltd.	10,146,112	8,382,052
Other	884,442	824,421
	11,030,554	9,206,473
Other assets:		
Drilling, reservation and other deposits	144,665	136,530
Unamortized debenture discount and issue expenses (Note 1)	1,065,917	1,127,005
Unamortized gas processing contracts (Note 1)	11,454,721	11,772,216
	12,665,303	13,035,751
	$382,488,083	$300,925,057

LIABILITIES

	1974	1973 (Restated)
Current liabilities:		
Accounts payable and accrued liabilities	$ 21,436,315	$ 11,157,371
Dividends payable	11,239,032	—
Income taxes payable	18,220,505	1,613,113
Current portion of long-term debt	17,522,008	5,656,666
	68,417,860	18,427,150
Long-term debt (Note 3)	89,945,833	93,467,842
Deferred credits:		
Deferred rentals	525,435	325,801
Deferred income taxes (Note 2)	89,316,882	81,366,861
	89,842,317	81,692,662
Shareholders' equity (Note 4):		
Capital stock —		
Authorized —		
50,000,000 shares of $1 par value		
Issued —		
31,219,534 shares of which 4,544 shares were issued in 1974	31,219,534	31,214,990
Paid in surplus	41,561,717	41,509,278
Retained income	61,500,822	34,613,135
	134,282,073	107,337,403
Commitment (Note 6)		
APPROVED ON BEHALF OF THE BOARD:	$382,488,083	$300,925,057

Director

Director

Notes to Consolidated Financial Statements

DECEMBER 31, 1974

NOTE 1 — ACCOUNTING POLICIES:

The consolidated financial statements include the accounts of PanCanadian Petroleum Limited and its subsidiaries, all of which are wholly-owned.

Foreign currency balances included in the consolidated financial statements have been expressed in Canadian dollars on the following basis:

Current assets and liabilities — at the rate of exchange December 31, 1974.

Other assets and liabilities — at historical rates of exchange.

Income and expenses — at monthly rates of exchange except provisions for depreciation and amortization which are translated on the same basis as the related assets.

The companies follow the full cost method of accounting for oil and gas properties whereby all costs relating to the exploration for and the development of oil and gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, and overhead expenses related to exploration activities. These costs are depleted by the unit of production method based on estimated proven oil and gas reserves.

Depreciation of plant, production and other equipment is being provided at rates which will amortize original costs over the estimated useful lives of the respective assets.

Unamortized debenture discount and issue expenses are being charged to income on a straight-line basis over the terms of the debenture issues.

Unamortized gas processing contracts are being charged to income on a straight-line basis over the life of the contracts which is forty years.

The companies follow the allocation method of accounting for income taxes (see Note 2).

NOTE 2 — INCOME TAXES:

The companies follow the tax allocation basis of accounting for income taxes, whereby tax provisions are based on accounting income and taxes related to timing differences between accounting and taxable income are deferred. For timing differences relating to oil and gas exploration and drilling expenditures, the practice of providing deferred income taxes at an estimated rate was followed until December 31, 1973. In 1974 the companies retroactively adopted the policy of providing for deferred income taxes on such expenditures at full effective tax rates resulting in an increase in deferred income taxes at the beginning of 1974 of $21,700,000 (1973 — $18,700,000) and a corresponding decrease in retained income as set forth below:

	1974	1973
Retained income at beginning of year:		
As previously reported	$56,313,135	$44,808,418
Adjustment of prior years' income tax	21,700,000	18,700,000
As restated	$34,613,135	$26,108,418

The 1973 figures have been restated to reflect this change which has the effect of decreasing net income for 1973 by $3,000,000 (10c per share).

On November 18, 1974 the Canadian government introduced budgetary proposals to amend the Income Tax Act, the significant tax proposals relating to the resource industry being retroactive to May 7, 1974. The proposals, among other measures, disallow the deduction of royalties and other levies imposed by the provincial and federal governments in calculating taxable income and impose limitations on the deduction of certain development expenses and on depletion allowances. The effect of the foregoing is partially offset by a reduction in the federal rate of income tax applicable to resource production profits. In December 1974 the governments of Alberta and Saskatchewan announced proposals for tax rebates and royalty reductions which to some degree alleviate the additional taxes arising from the federal budget. Although the provincial and federal legislative amendments have not yet been enacted, the 1974 income tax provision has been computed on the basis of taking such amendments into account.

NOTE 3 — LONG-TERM DEBT:

Details of long-term debt outstanding at December 31, 1974 and at December 31, 1973 are set forth hereunder:

	1974	1973
Bank loans:		
Due in quarterly instalments of $416,667	$ 3,750,000	$ 5,416,667
Due in quarterly instalments of $312,500	5,312,500	6,562,500
Due March 12, 1975	10,000,000	10,000,000
Due March 31, 1983	11,000,000	11,000,000
Due in annual instalments of $2,600,000 to 1975 and $3,600,000 thereafter	13,400,000	16,000,000
Due in annual instalments of $2,000,000	14,000,000	—
Production loan	5,341	145,341
	57,467,841	49,124,508
Less: Current portion	17,522,008	5,656,666
	39,945,833	43,467,842
8-1/8% secured debentures due March 1, 1992, sinking fund payments 1978 - 1991, secured by a first mortgage upon certain producing properties	25,000,000	25,000,000
8-3/4% secured debentures due November 1, 1992, sinking fund payments 1978 - 1991, secured by a first mortgage upon certain producing properties	25,000,000	25,000,000
	$89,945,833	$93,467,842

The bank loans bear interest at rates which fluctuate (in certain cases within defined limits) with the lender's prime commercial rate.

The Company has agreed that, without the consent of the bankers, the assets of the Company and its subsidiaries will not be encumbered nor will any debt be created that would rank prior to or pari passu with the bank loans.

The annual maturities for long-term debt for each of the five years ending December 31, are as follows:

1975 — $17,522,008 1976 — $8,516,667 1977 — $7,266,667 1978 — $8,100,000 1979 — $3,562,500

NOTE 4 — CAPITAL STOCK AND PAID IN SURPLUS:

The changes in capital stock and paid in surplus for the year ended December 31, 1974 are summarized hereunder:

	Number of shares	Capital stock	Paid in surplus
Balance, December 31, 1973	31,214,990	$31,214,990	$41,509,278
Shares issued for cash re employee profit sharing plan	4,544	4,544	52,439
Balance, December 31, 1974	31,219,534	$31,219,534	$41,561,717

NOTE 5 — STATUTORY INFORMATION:

During 1974 there were thirteen directors (including three past directors) and eleven officers (including two past officers) (as defined by the Canada Corporation Act) of whom four were also directors.

Officers' remuneration and directors' fees for 1974 amounted to $379,464 and $31,500 respectively, (1973 — $335,850 and $25,342) none of which was paid by subsidiaries.

NOTE 6 — COMMITMENT:

The Company and Tyler Corporation of Dallas, Texas have commenced construction of an ammonia complex having an estimated cost upon completion in 1976 of $77,000,000 of which $6,000,000 has been expended to December 31, 1974. The complex will be owned 60% by the Company and 40% by Tyler. Subsequent to commencement of construction of the plant the Alberta government enacted legislation requiring the obtaining of an industrial development permit. The Company applied for the permit on October 1, 1974 and it has not yet been issued. Subject to the issuance of the permit the Company has arranged financing for its share ($46,200,000) of cost of the complex to the extent of $30,000,000 to bear interest at 9¾% and to be repayable by equal annual instalments over twelve years.

Five Year Statistical Review

Dollar amounts are in thousands with the exception of per share figures.

FINANCIAL	1974	1973	1972	1971	1970
Gross Income	$130,572	$75,374	$47,271	$39,432	$34,928
Cash Generated	74,557	49,872	34,965	30,598	27,143
Per share	2.39	1.60	1.12	1.00	0.89
Net Income	46,243	21,300	15,244	14,497	12,635
Per Share	1.48	0.68	0.49	0.48	0.41
Cash Dividends	19,355	12,795	9,982	9,560	8,830
Per Share	0.62	0.41	0.32	0.31	0.29
Working Capital (Deficiency)	11,748	10,900	29,896	(1,794)	(3,449)
Long Term Debt	89,946	93,468	71,979	32,706	22,765
Deferred Income Taxes	89,317	81,367	52,386	46,689	41,156
Capital Expenditures					
Exploration	30,285	22,934	22,756	19,349	18,262
Development	9,675	4,385	1,985	1,129	844
Production Facilities and Equipment	9,356	4,695	5,597	4,373	3,297
Total	49,316	32,014	30,338	24,851	22,403
Investment in Panarctic Oils Ltd.	1,764	1,705	1,812	1,573	1,451
Number of Shares Outstanding	31,219,534	31,214,990	31,205,985	31,197,972	30,456,478
Number of Shareholders	7,492	7,840	7,881	8,010	8,374
OPERATIONS					
Production — Net					
Oil and Natural Gas Liquids (bbls.)	18,706,751	18,463,885	12,441,881	10,413,083	9,703,787
Daily Average	51,252	50,586	33,995	28,530	26,586
Natural Gas (Mcf.)	82,593,959	76,726,824	73,025,193	65,451,962	59,047,895
Daily Average	226,285	210,210	199,522	179,320	161,775
Sulphur (l.t.)	98,171	96,010	97,630	92,422	81,805
Daily Average	269	263	267	253	224
Properties — Working Interest					
Petroleum and Natural Gas					
Gross Acreage	39,686,475	45,671,396	20,036,720	18,697,343	23,216,601
Net Acreage	16,426,125	19,705,221	14,797,944	14,930,372	16,768,363
Wells — Net					
Oil	454.15	467.53	444.47	447.15	425.70
Gas	851.52	574.91	367.06	323.43	276.92
Number of Employees	532	489	428	412	383

Corporate

OFFICERS

Robert W. Campbell
Chairman of the Board
and Chief Executive Officer

J. M. Taylor
President

Ian D. Sinclair, Q.C.
Vice President

A. W. Groll
Vice President — Production

M. A. Rogers
Vice President — Exploration

C. H. Stevens
Vice President and Comptroller

V. B. Watson
Treasurer and Assistant Comptroller

George E. Little
Corporate Secretary

C. Millar
Assistant Secretary
and Manager Title Records

SHARES LISTED

Alberta Stock Exchange
Montreal Stock Exchange
Toronto Stock Exchange
Vancouver Stock Exchange

REGISTRAR AND TRANSFER AGENT

Guaranty Trust Company of Canada —
Calgary, Montreal, Toronto, Vancouver

BANKER

The Royal Bank of Canada

AUDITORS

Price Waterhouse & Co.
Chartered Accountants
Calgary, Alberta

SUBSIDIARY AND AFFILIATE COMPANIES

Wholly Owned

Blackfoot Pipelines Ltd.
Canadian Pacific Oil and Gas of Canada Limited
Canadian Pacific Oil and Gas Nederland BV.
Canadian Pacific Oil and Gas Norway A/S
PanCanadian Gas Products Ltd.
PanCanadian Petroleum Company
PanCanadian Petroleum (U.K.) Limited
Canadian Persian Oil Limited
PanCanadian Kerrobert Pipeline Ltd.

Other

Minerals Ltd. — 50%
Panarctic Oils Ltd. — 8.89%

PanCanadian Petroleum Limited publishes a supplementary report entitled "Financial and Operating Information". The report contains more detailed information than it is possible to include in the Annual Report and is mainly provided for the use of security analysts. Any shareholder requiring a copy may obtain one by directing a request to the Supervisor Economics Unit.

PanCanadian Petroleum Limited

P. O. Box 2850 Calgary, Alberta, Canada T2P 2S5

SMITH GRANT MANN
Litho'd in Canada

PanCanadian

INTERIM REPORT

For the Six Months Ended
June 30, 1974

PanCanadian Petroleum Limited
P.O. Box 2850
Calgary, Alberta
T2P 2S5

TO THE SHAREHOLDERS:

FIRST HALF COMPARATIVE HIGHLIGHTS

FINANCIAL (thousands of dollars)	1974	1973
Gross revenue	$60,689	$35,668
Funds from operations	36,058	24,241
Per share	1.16	.78
Net income (Note 3)	20,835	9,179
Per share	.67	.29
PRODUCTION (net daily average)		
Oil and natural gas liquids — bbls.	55,617	51,013
Natural gas sales — MMcf	237	221

During the second quarter the Company drilled or participated in drilling 112 wells, of which 20 wells were successfully completed as oil wells, 59 as gas wells and one as a facility well. This brings the total wells drilled during the first half of 1974 to 240. During the first half, PanCanadian continued to rank as one of the top ten operators in terms of drilling completions in Canada.

Of the wells drilled during the second quarter, gas discoveries were made in the Irrigation Block in the general Countess, Princess, Verger and Alderson regions of southern Alberta.

During 1974 the Company participated in the drilling of four joint interest oil wells in the Kinsella area resulting in the partial delineation of a Sparky Sand oil pool in which recoverable reserves are currently estimated to be 15 million barrels.

The Company drilled an oil discovery in the Dickson area of west central Alberta on lands farmed-in from Union Oil Company of Canada Limited, and is the first Glauconitic oil to be found in the area. During the second quarter PanCanadian's land acquisition program was highlighted by participation in a three company farm-in involving a 5.9 million acre parcel in New Brunswick.

Panarctic has concluded its fifth financing since inception, increasing its capitalization by a further $25 million. The 1974 financing which was taken up, included an offering of 500,000 shares proportionate to respective land interests to parties that farmed-out lands to Panarctic in 1966. As a result of the additional financing, PanCanadian's interest in Panarctic Oils Ltd. has been slightly reduced to 8.9%.

In April, Panarctic Oils Ltd. announced the completion of an oil well, Panarctic Tenneco et al Bent Horn N-72, located on Cameron Island. Also in April, the Panarctic Tenneco et al CS.W Hecla N-52 well flowed gas from Borden Island sands. The N-52 well, located eight miles west of the Sabine Peninsula on Melville Island was the first well ever drilled from a floating ice platform. In May, Panarctic POR Homestead Drake E-78 was successfully completed as a stepout well that extended the Drake Point Gas Field on Melville Island.

Three successful oil wells were drilled in the United States during the second quarter, two of which extended the OK field in Campbell County, Wyoming. In Ochiltree County, Texas, PanCanadian has a 22.4% working interest in the Clement #3 well which found oil in the Cleveland formation. The Company also purchased an undivided 5% interest from Hamilton Brothers in Block A-36 located in the High Island area, East Addition, South Extension, offshore Texas. This block will be drilled later in the year.

PanCanadian and Tyler Corporation of Dallas, Texas have placed $12 million in equipment orders for the Brooks Ammonia Plant. System design and engineering phases of the complex are well under way. However, subsequent to our announcement to construct this plant and the placement of equipment orders, the provincial government enacted legislation requiring the securement of an industrial development permit. In compliance with this legislation, PanCanadian has submitted an application to the Alberta Energy Resources Conservation Board.

Robert W. Campbell
Chairman of the Board and
Chief Executive Officer.

John Taylor
President.

Calgary, Alberta.
August 2, 1974.

PanCanadian Petroleum Limited
and Subsidiaries

CONSOLIDATED FINANCIAL SUMMARY

(thousands of dollars)

	June 30 1974	June 30 1973 (Note 3)
Balance Sheet		
Current assets	$ 55,805	$ 27,714
Current liabilities	37,727	11,138
Working capital	18,078	16,576
Property, equipment and other assets	282,462	260,447
	300,540	277,023
Long term debt	94,004	96,596
Deferred credits	86,423	77,165
Shareholders' equity	$ 120,113	$ 103,262
Shares outstanding	31,219,534	31,210,214

	For the Six Months Ended June 30 1974 (Notes 1 & 2)	For the Six Months Ended June 30 1973 (Note 3)
Changes in Financial Position		
Source of working capital:		
Funds from operations	$ 36,058	$ 24,241
Long term debt	14,000	10,000
Long term debt assumed — TransCanada Petroleums Limited	—	16,145
Other	57	64
	50,115	50,450
Application of working capital:		
Capital expenditures — net	21,082	12,787
Bank loans	13,464	1,528
Capital assets acquired — TransCanada Petroleums Limited	—	44,715
Dividends	8,116	4,681
Other	276	59
	42,938	63,770
Increase (decrease) in working capital	$ 7,177	$ (13,320)
Statement of Income		
Gross revenue	$ 60,689	$ 35,668
Operating and administrative expenses	12,394	7,512
Interest expense	4,973	3,946
Depreciation and depletion expense	10,272	9,153
	27,639	20,611
Income before income taxes	33,050	15,057
Provision for income taxes	12,215	5,878
Net income	$ 20,835	$ 9,179

Notes: 1. Provision for mineral reserve taxes on Company feelands in Alberta estimated pending establishment of mill rate.

2. Provision for income taxes does not give effect to the May 6 budget proposals of the federal government.

3. Restated to give retroactive effect to the adoption of full tax rates in applying the tax allocation basis of accounting in respect to oil and gas exploration and drilling expenditures which had the effect of decreasing net income for the 1973 half year by $1,717,000 (6c per share) and retained income as at December 31, 1973 by $21,700,000.

CONSOLIDATED OPERATING SUMMARY

Production — net daily average		
Oil — bbls.	39,975	40,332
Natural gas liquids — bbls.	3,019	2,984
Empress Plant — bbls.	12,623	7,697
	55,617	51,013
Natural gas — MMcf	237	221

"Unaudited"

AR14

PanCanadian Petroleum Limited

Financial & Business Editor,
The Globe & Mail,
140 King Street West,
Toronto, Ontario,

NEWS RELEASE